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SUBJECT: DC ECONOMIC PROGRAM PROPOSED TO OTHER PARTIES

REF: (A) ROME 1945; (B) 75 ROME 18950, (C) ROME 861

SUMMARY. CHRISTIAN DEMOCRATS (DC) PRESENTED ECONOMIC
PROGRAM OF PROPOSED NEW ONE-PARTY GOVERNMENT TO OTHER
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CENTER-LEFT POLITICAL PARTIES ON FEBRUARY 4. MAIN ELEMENTS

OF PROGRAM ARE: (1) EXCESS PROFITS TAX AND POSSIBLE STANDBY 2,000 BILLION LIRA TAX PACKAGE IN FORM OF INCREASES IN VARIOUS INDIRECT TAXES, (2) FREEZE ON SALARIES OF MANAGERS AND LIMITS ON WAGES OF HIGHER-PAID EMPLOYEES, (3) REVISED INDUSTRIAL RESTRUCTURING PROPOSALS, (4) MEASURES TO FAVOR EMPLOYMENT, (5) PROVISION RE DEVELOPMENT OF MEZZOGIORNO, AND (6) MEASURES TO HELP CERTAIN ECONOMIC SECTORS. SOCIALIST, REPUBLICAN AND SOCIAL DEMOCRAT PARTIES ARE TO GIVE REACTION TO PROGRAM ON FEBRUARY 5. MONETARY MEASURES TO REDUCE LIQUIDITY AND TO STRENGTHEN LIRA IN EXCHANGE MARKETS REPORTED REFTEL A. DC PROGRAM CLEARLY REFLECTS INFLUENCE OF PSI VIEWS (REFTEL C), PARTICULARLY WITH REGARD TO MEASURES CONCERNING PROTECTION OF EMPLOYMENT, REGIONALIZATION OF SOUTHERN DEVELOPMENT STRUCTURE AND NEW MEASURES DEALING WITH TAX AND INCOME POLICIES. IN EMBASSY VIEW, LATTER TWO ASPECTS OF PROGRAM SHOW AT LEAST SOME RECOGNITION OF CRITICAL NATURE OF LARGE BUDGET DEFICIT AND RAPIDLY RISING LABOR COSTS. HOWEVER, MEASURES IN THEMSELVES ARE RATHER FEEBLE EFFORT TO ADDRESS THESE KEY ISSUES. FOLLOWING IS GARNERED FROM EXTENSIVE SUMMARIES OF 43-PAGE DOCUMENT CARRIED IN PRESS.

END SUMMARY.

1. FISCAL MEASURES. EXCESS PROFITS TAX WOULD BE INTRODUCED IN AMOUNT OF 75 PERCENT OF PROFIT MARGINS WHICH EXCEED THOSE PREVAILING IN 1974 OR WHICH ARE IN EXCESS OF 4 PERCENT RETURN ON NET CAPITAL. MEASURE IS DESCRIBED AS DISINCENTIVE TO EXCESSIVE PRICE INCREASES AND AS ALTERNATIVE TO PRICE CONTROLS. REVENUE IS TO BE USED TO FINANCE INDUSTRIAL RESTRUCTURING PLAN. STANDBY 2,000 BILLION LIRE TAX PACKAGE IS TO BE STUDIED FURTHER. PACKAGE MIGHT CONSIST OF: (A) RISE IN VALUE-ADDED TAX RATES, ESPECIALLY ON NON-ESSENTIALS AND ON IMPORTS; (B) INCREASE IN MANUFACTURING, CONSUMPTION, SALES AND REAL ESTATE TAX RATES (WHICH ARE NOT ASSESSED AD VALOREM) TO COMPENSATE FOR EROSION IN REAL VALUE OF REVENUE FROM THESE SOURCES DUE TO INFLATION, (C) GRADUAL INCREASE IN PUBLIC SERVICE TARIFFS TO COVER COSTS OF PRODUCTION BUT WITH PREFERENTIAL RATES FOR LOW INCOME USERS; AND (C) ACCELERATION IN PAYMENTS OF INCOME TAXES BY ABOLISHING PAYMENTS IN INSTALLMENTS AND BY INCREASING INTEREST RATE CHARGED ON OVERDUE PAYMENTS. NEW TAX PACKAGE WOULD ONLY BE IMPLEMENTED IF NEEDED FOR CYCLICAL REASONS.

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INTERMINISTERIAL WORKING GROUP WOULD BE CREATED IN OFFICE OF PRIME MINISTER TO FOLLOW RHYTHM OF EXPENDITURES MADE UNDER MID-1975 ANTI-RECESSION PACKAGE SO AS TO IDENTIFY OBSTACLES TO PROMPT EXPENDITURE OF FUNDS. GOVERNMENT EXPRESSES ITS FIRM INTENT TO LIMIT RESORT TO CENTRAL BANK FINANCING OF ITS DEFICIT.

2. WAGE AND SALARY LIMITATIONS. THERE WOULD BE FREEZE FOR

TWELVE-MONTH PERIOD ON SALARIES OF MANAGERS, DIRECTORS AND AUDITORS OF CORPORATIONS, ENTITIES AND INSTITUTES. THERE WOULD ALSO BE LIMIT OVER TWELVE-MONTH PERIOD ON WAGES OF EMPLOYEES IN HIGHER-INCOME BRACKETS (REPORTEDLY UPPER TEN PERCENT.). THESE RISES WOULD BE LIMITED TO COST OF LIVING AUTOMATIC ADJUSTMENTS AND SENIORITY ADJUSTMENTS. DURING TWELVE-MONTH PERIOD THESE INCREASES WOULD BE INVESTED IN TREASURY BILLS TO BE SURRENDERED TO EMPLOYEES AT END OF PERIOD. GOVERNMENT WILL ASK UNIONS TO DISTRIBUTE NEW WAGE INCREASE OVER ENTIRE LIFE OF CONTRACT AND TO TAKE INTO ACCOUNT STRICT LIMITS WHICH REVITALIZATION OF ECONOMY PLACES ON INCREASES IN PRIVATE CONSUMPTION. HELP OF UNIONS WOULD BE SOUGHT TO REDUCE ABSENTEEISM.

3. INDUSTRIAL RESTRUCTURING. DC PROGRAM CALLS FOR URGENT DEVELOPMENT OF CONCRETE PROPOSALS FOR RESTRUCTURING INDUSTRY AIMED AT INCREASING EMPLOYMENT AND PRODUCTIVITY. PLAN DOES NOT SPECIFY WHICH ADMINISTRATIVE PROCEDURE SHOULD BE ADOPTED, I.E., CONTROL BY MINISTRY OF INDUSTRY, BY A NEW INTERMINISTERIAL COMMITTEE FOR INDUSTRIAL POLICY (CIPi) OR BY INTERMINISTERIAL COMMITTEE FOR ECONOMIC PLANNING (CIPE), BUT IT DOES EMPHASIZE NEED FOR OPENNESS AND ADEQUATE CONTROL OVER USE OF FUNDS. OBJECTIVE OF RESTRUCTURING WOULD BE MODIFY PRODUCTIVE SYSTEM SO AS TO REDUCE BALANCE OF PAYMENTS CONSTRAINT AND TO SHAPE PRODUCTIVE CAPACITY TO FIT THAT COMPOSITION OF DEMAND CONSIDERED TO BE MOST SUITABLE FOR ECONOMIC DEVELOPMENT.

4. PROPOSAL CAUTIONS AGAINST USE OF AUTOMATIC INCENTIVES AND AGAINST GRANTING ASSISTANCE TO FIRMS UNDER PRESSURE FROM THEIR UNIONS AND MANAGEMENT. INSTEAD, AID SHOULD BE ALLOCATED ONLY TO MOST IMPORTANT AND MOST NEEDY SECTORS. THESE SECTORS

MIGHT INCLUDE: ENERGY, TEXTILES, AND CLOTHING, TRANSPORT
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EQUIPMENT, ELECTRONICS, APPLIANCES, SELECTED CAPITAL GOODS, ESPECIALLY ELECTROMECHANICAL, PRIMARY AND SECONDARY CHEMICALS, MINERALS AND OTHER SECTORS WHEN JUSTIFIED BY EMPLOYMENT AND REGIONAL DEVELOPMENT CONSIDERATIONS. SUPPORT IS GIVEN FOR "FISCALIZATION" OF SOCIAL COSTS OF WOMEN WORKERS IN MANUFACTURING AND FOR UNIFICATION OF VARIOUS INCENTIVE LAWS.

5. EMPLOYMENT. PLAN CALLS FOR GREATER ATTENTION TO EMPLOYMENT ASPECT OF ECONOMIC GROWTH, INCREASE IN PRODUCTIVITY, WORKER TRAINING, LABOR MOBILITY AND REVISION OF PRESENT INCOME MAINTENANCE SYSTEM FOR UNEMPLOYED AND FOR SHORT-HOUR WORKERS. IT NOTES THAT BALANCE MUST BE STRUCK BETWEEN USE OF RESOURCES TO CREATE NEW JOBS AND USE TO MAINTAIN INCOME OF UNEMPLOYED.

6. PROCEDURES TO BE USED WOULD BE AS FOLLOWS: (A) WORKERS

PLACED ON SHORT-HOURS WOULD BENEFIT FROM WAGE SUPPLEMENT FUND
PAYMENTS AND, IF KEPT ON SHORT-HOURS FOR A LONG PERIOD,
WOULD BE ENTITLED TO WORKER TRAINING. (B) WHERE FIRM WAS NOT
ABLE EVENTUALLY TO RE-ABSORB WORKERS PLACED ON SHORT HOURS,
LABOR MOBILITY WOULD BE PROVIDED THROUGH TRANSFER TO OTHER FIRMS
WITH WAGE SUPPLEMENT PAYMENTS AND WORKER TRAINING AVAILABLE
AT NEW FIRM DURING TRANSITIONAL PERIOD, (C) IF IT NOT POSSIBLE
TO TRANSFER WORKER IMMEDIATELY TO ANOTHER FIRM, HE WOULD BE MAIN-
TAINED ON ROLLS OF FIRM (ONLY IN CASE OF FIRMS HAVING
AT LEAST 300 EMPLOYEES AS OF FEBRUARY 1, 1976). ALL COSTS
WOULBE ABSORBED BY WAGE SUPPLEMENT FUND WHILE PREFERENTIAL SYSTEM
OF JOB PLACEMENT IS EMPLOYED. EVENTUAL NEW EMPLOYER WOULD
BE ELIGIBLE FOR RELIEF FROM SOCIAL INSURANCE COSTS FOR SIX-
MONTH PERIOD, (D) IN CASE OF LIQUIDATION OF FIRM AND LAYOFF
OF WORKERS, ORDINARY UNEMPLOYMENT MEASURES MUST BE APPLIED
IN NON-DISCRIMINATORY MANNER. IN GENERAL SUPPORT OF GREATER
LABOR MOBILITY SPECIAL COMMISSIONS WOULD BE CREATED COMPOSED
OF REPRESENTATIVES OF LOCAL LABOR OFFICES, UNIONS AND EMPLOYERS TO AS
SIST
IN JOB PLACEMENT.

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7. SPECIAL PROGRAM WOULD BE CREATED FOR EMPLOYMENT OF
UNEMPLOYED YOUTH UNDER 25 YEARS OF AGE (APPROXIMATELY 50,000
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WORKERS). PROGRAM WOULD CONSIST OF APPRENTICESHIP FOR SUCH
WORKERS FOR MAXIMUM PERIOD OF TWELVE MONTHS, DURING WHICH
THEY COULD WORK IN INDUSTRY, COMMERCE, HANDICRAFTS, THE PRO-
FESSIONS, LOCAL GOVERNMENT OR LOCAL OFFICES OF CENTRAL
GOVERNMENT. TOKEN WAGE OF 100,000 LIRE PER MONTH WOULD
BE PAID. ONE YEAR APPRENTICESHIP WOULD NOT CREATE COMMITMENT
BY EMPLOYER TO PROVIDE PERMANENT JOB. COST OF PROGRAM IS
ESTIMATED AT 60 BILLION LIRE.

8. MEZZOGIORNO. PLAN CALLS FOR MORE EFFICIENT ADMINIS-
TRATION WITHIN MORE COHERENT PLANNING FRAMEWORK FOR GOVERN-
MENT INTERVENTION IN SUPPORT OF DEVELOPMENT OF MEZZOGIORNO.
THORNY PROBLEM OF RESPECTIVE ROLE OF CENTRAL GOVERNMENT,
CASSA PER IL MEZZOGIORNO AND REGIONAL GOVERNMENTS WOULD
BE ADDRESSED THROUGH SEPARATION OF SPECIAL DEVELOPMENT
EXPENDITURES BETWEEN PROGRAMS WHICH ARE ESSENTIALLY
REGIONAL AND THOSE WHICH ARE NATIONALLY ORIENTED. REGIONAL
GOVERNMENTS WOULD RECEIVE BUDGET APPROPRIATIONS DIRECTLY FOR
REGIONAL PROGRAMS WITH CENTRAL GOVERNMENT ROLE LIMITED TO ESTA-
BLISHING CRITERIA AND PRIORITIES FOR USE OF SUCH FUNDS.
NATIONAL PROGRAMS WOULD ALSO HAVE REGIONAL GOVERNMENT INPUT
THROUGH PARTICIPATION OF REPRESENTATIVES OF REGIONAL GOVERN-
MENTS IN DECISION-MAKING WITHIN CIPE AS WELL AS IN PREPARATORY
PHASES. PARLIAMENTARY COMMISSION WOULD BE CREATED TO SUPERVISE
EXPENDITURES IN MEZZOGIORNO. ROLE OF CASSA PER IL MEZZOGIORNO
WOULD BE REDUCED TO THAT OF EXECUTIVE AGENCY RESPONSIBLE FOR
ADMINISTRATION OF NATIONAL PROGRAMS. BASIC POLICY DECISIONS
REGARDING SUCH PROGRAMS WOULD BE MADE AT POLITICAL LEVEL.
OPERATIONAL EFFICIENCY OF CASSA WOULD BE IMPROVED AND BETTER
COORDINATION WITH REGIONAL GOVERNMENTS PROMOTED THROUGH
INCLUSION OF ONE REPRESENTATIVE FROM REGIONS ON CASSA'S BOARD OF
MANAGEMENT.

9. CONSTRUCTION. PROGRAM URGES PASSAGE OF NEW LAND USE
LAW TO REDUCE LAND SPECULATION AND TO CHANNEL INCREASED
SAVINGS TO CONSTRUCTION SECTOR. PLAN CALLS FOR LEGISLATIVE
MEASURES TO RATIONALIZE AND STRENGTHEN GOVERNMENT CONTROL

OVER RESIDENTIAL HOUSING. PROVISIONS ARE ALSO SOUGHT SUFFICIENT TO ASSURE FAIR RENT FOR TENANTS SO THAT PERIODIC RENT FREEZES CAN BE ELIMINATED.

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10. AGRICULTURE. PLAN CALLS FOR INCREASE PRODUCTION TO COMBAT INFLATION AND BALANCE OF PAYMENTS PROBLEMS. SECTOR SHOULD BE RESTRUCTURED TO MAKE IT MORE COMPETITIVE. PREFERENCE SHOULD BE GIVEN TO IRRIGATION, MORE EFFICIENT DISTRIBUTION SYSTEM, LIVESTOCK RAISING AND PRODUCTION OF FRUITS AND VEGETABLES. REFORMS SHOULD BE MADE IN AGRICULTURAL CREDIT SYSTEM, STRUCTURE OF MINISTRY OF AGRICULTURE AND IN AIMA (MARKET INTERVENTION AGENCY OF AGRIMIN) AND BETTER USE SHOULD BE MADE OF RESEARCH AND EXPERIMENTAL WORK. REGIONAL PLANNING IN AGRICULTURE SHOULD BE BETTER COORDINATED.

11. STATE HOLDINGS. PROPOSED INCREASE IN CAPITAL ENDOWMENT FUNDS WOULD GO FORWARD BUT ACCOMPANIED BY DETAILED MULTI-YEAR PLAN OUTLINING INVESTMENT STRATEGY TO BE FOLLOWED IN PRIORITY AREAS. PRIOR TO RELEASE OF ANNUAL CAPITAL FUND APPROPRIATIONS, GOVERNMENT WOULD HAVE TO PRESENT PROGRESS REPORT TO PARLIAMENT ON IMPLEMENTATION OF INVESTMENT PROGRAMS AND COULD SUSPEND RELEASE OF FUNDS FOR FAILURE TO FULFILL INVESTMENT OBJECTIVES. STATE HOLDING SYSTEM WOULD BE REFORMED TO CORRESPOND MORE CLOSELY TO RATIONAL INDUSTRIAL STRUCTURE, TO FACILITATE GOVERNMENT PROGRAMS AND TO IMPROVE CONTROL OVER OPERATIONS.

12. ENERGY. MULTI-YEAR ENERGY PROGRAM PREVIOUSLY APPROVED BY CIPE WOULD EVENTUALLY BE MODIFIED IN LINE WITH FORTHCOMING PARLIAMENTARY DEBATE. SUPPORT IS GIVEN FOR DRAFT LAW PROPOSING ADDITIONAL FUNDING FOR RESEARCH.

13. TRANSPORT. OVERALL TRANSPORT PLAN SHOULD BE DEVELOPED FOR BETTER COORDINATION. PRIORITY OF OBJECTIVES OF TRANSPORT PROGRAM SHOULD BE MODERNIZATION OF METROPOLITAN TRANSPORT, ESPECIALLY COMMUTER AND URBAN TRANSPORT, AND CENTRAL GOVERNMENT AND REGIONAL GOVERNMENTS SHOULD COOPERATE IN DEVELOPMENT OF STATE RAILROADS, PORTS, AIRPORTS, ETC.

14. SMALL AND MEDIUM INDUSTRY. SMALL AND MEDIUM INDUSTRY SHOULD ALSO BENEFIT FROM OVERALL INDUSTRIAL RESTRUCTURING PLAN. THERE SHOULD BE CLEARER DEFINITION OF WHICH FIRMS QUALIFY AS "SMALL AND MEDIUM" AND THEREFORE ELIGIBLE FOR VARIOUS BENEFITS. EXISTING SUBSIDIZED CREDIT LAWS SHOULD BE COMPILED INTO SINGLE CODE.

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15. COMMERCE AND TOURISM. THERE IS NEED TO CREATE CENTERS TO DISSEMINATE PROFESSIONAL INFORMATION AND TO PROVIDE TECHNICAL ASSISTANCE. MORE PROMPT AND AUTOMATIC REIMBURSEMENT OF TAX REBATES ON EXPORTS IS REQUIRED AND ANNUAL EXPORT CREDIT INSURANCE CEILING SHOULD BE ABOLISHED. EFFORTS SHOULD BE MADE IN FIELD OR URBAN DEVELOPMENT, INCLUDING IMPROVEMENT IN URBAN WHOLESALE AND RETAIL DISTRIBUTION SYSTEMS.

16. ARTISAN INDUSTRY. NEW LEGISLATION SHOULD BE PASSED TO CREATE REGULATORY FRAMEWORK FOR ASSISTANCE TO THIS SECTOR. MEASURES SHOULD FAVOR TECHNOLOGICAL MODERNIZATION. ADEQUATE FINANCING SHOULD BE PROVIDED TO ARTISAN FUND FOR ITS SUBSIDIZED CREDIT PROGRAMS.

17. COMMENT. MUCH OF DC PROGRAM, PARTICULARLY REGARDING SPECIFIC SECTORS SUCH AS TRANSPORT, HOUSING, ETC. REPRESENTS RE-HASH OF IDEAS PROPOSED IN EARLIEST DC-PRI PROGRAM AND RECENT PSI ECONOMIC PROPOSALS (REFTELS B AND C). PLAN SHOWS CLEAR INFLUENCE OF PSI (WHOSE ECONOMISTS REPORTEDLY COOPERATED IN PLAN'S PREPARATION), PARTICULARLY WITH REGARD TO MAINTENANCE OF EMPLOYMENT PROPOSALS, RESPECTIVE ROLES OF REGIONAL AND CENTRAL GOVERNMENTS IN DEVELOPMENT OF MEZZOGIORNO AND NEW FISCAL AND INCOME POLICY PROPOSALS. LATTER TWO ASPECTS OF PLAN AT LEAST GIVE SOME RECOGNITION TO SERIOUS PROBLEMS OF LARGE CASH BUDGET DEFICIT AND ALREADY HIGH AND STILL RISING LABOR COSTS. HOWEVER, EXCESS PROFITS TAX CAN ONLY LIMIT FUNDS IMMEDIATELY AVAILABLE FOR INVESTMENT, EVEN THOUGH THEY MAY EVENTUALLY BE RE-CHANNELLED INTO INVESTMENT THROUGH INDUSTRIAL RESTRUCTURING MECHANISM. STANDBY TAX PACKAGE COULD PROVE TO BE HELPFUL LATER ON IF IT, IN FACT, IS EVER APPROVED. FREEZE ON MANAGERIAL SALARIES AND LIMITATIONS ON HIGH INCOME EMPLOYEES CAN HAVE LITTLE EFFECT IN REDUCING OVERALL BURDEN OF RISING LABOR COSTS. EFFORT TO PERSUADE UNIONS TO MODERATE WAGE DEMANDS MAY BE DESIRABLE BUT EFFECTIVENESS IS DOUBTFUL.

18. PSI OBVIOUSLY DID HAVE INPUT IN DC PROGRAM, AND DID TODAY FORMALLY DECIDE TO ABSTAIN ON NEW ONE-PARTY GOVERNMENT. PRI PLEASED BY CHANGES INTRODUCED IN ORIGINAL DC-PRI PROGRAM. BECAUSE OF THEIR DESIRE TO OVERCOME CURRENT ECONOMIC UNCERTAINTIES, UNIONS WILL PROBABLY ACCEPT PROGRAM AS MINIMUM LIMITED OFFICIAL USE
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NOW OBTAINABLE. INTERNATIONAL LENDING AGENCIES MAY FIND TREATMENT OF LABOR COST AND CASH BUDGET DEFICIT PROBLEMS AS RATHER MINIMAL APPROACH TO THESE SERIOUS PROBLEMS.
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